



Fund

Fund Council

6th Meeting (FC6)—Rome, Italy

November 8-9, 2011

CGIAR Fund: Moving Towards Predictability of Donor Contributions

(Working Document - For Discussion Only)

*Document presented for Agenda Item 12:
CGIAR Fund - The Way Forward on
Predictability of Donor Contributions*

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CGIAR Fund: Moving Towards Predictability of Donor Contributions

I. Introduction

1. At its July 2011 meeting the Fund Council discussed financing challenges faced by the CGIAR Fund. This paper aims to provide inputs to support the CGIAR Fund's move to more stable and predictable funding as an essential feature of CGIAR reform. The new CGIAR is expected to harmonize and maximize funding for priority research areas, simplify structures, reduce transaction costs and achieve results through agreed CGIAR Research Programs. In its first year the CGIAR Fund has succeeded in pooling significant resources for research priorities. However, without similar progress toward predictable multi-year funding, the full benefits of the CGIAR Fund may not be realized. This paper is directed at helping the CGIAR Fund to achieve more predictable, multi-year funding through an agreed resource mobilization mechanism. The latter is one component of a broader resource mobilization strategy for the CGIAR Fund.

II. CGIAR Research Program (CRP) and Challenges Ahead

2. The CRPs, including their budgets, are drafted by the respective Lead CGIAR Center, with significant input from other Centers and partners. The CRP budgets are reviewed and cleared by the Consortium Board before the entire program is sent to the Fund Council for approval. The total budget of each CRP is separated into two components, the Fund Council component, expected to be funded from Windows 1 & 2 of the Fund, and the bilateral component, funded from Window 3 and bilateral funds. This paper focuses on establishing a sound financial framework for the former.

3. Given the uncertainty around future levels of bilateral funding, the expected split in the proposed budgets between the CGIAR Fund component and the Bilateral component beyond the first year of a CRP are tentative. Most CRPs predict sharp declines in the size of the bilateral component of the CRP budget after year one, with a commensurate increase in the Window 1 & 2 Component.

4. Prior to establishing the CGIAR Fund and the Consortium, each Center was responsible for its own research impacts and outputs, and for raising its own funding from donors. Donors contributed to the Centers in an uncoordinated manner, with the Centers competing with each other for funding which resulted in uncertainty and impeded the ability of Centers to manage long-term research programs. It was common practice for Centers to set their annual budgets at the start of the year with incomplete knowledge of exactly how much they would receive from donors. Any late payments or defaults had significant effects on Center work programs with concomitant impact on research efficiency and quality.

5. The CGIAR reform, implemented during 2009-10 was based on the principles set out in the Paris Declaration, to which most donors have subscribed as a means to harmonize and align their actions and manage aid funding for results. In addition, a key component of the reform was to provide a mechanism for donors to pool their resources into a new trust fund for the CGIAR around a common set of focused objectives for development. The portfolio of CRPs clearly defines the research required to achieve tangible impacts on global development challenges and lays out the associated costs of the CRPs over the next three to five years. Lead Centers for each CRP require predictable funding over the same period in order to set up contractual arrangements with the participating CGIAR Centers and other non-CGIAR partners. In the absence of robust funding projections, Lead Centers may be reluctant to enter into multi-year agreements with research providers and the problem of the mismatch between short-term funding for long-term research will continue to prevail.

6. The challenges resulting from unpredictable funding must be overcome if the reformed CGIAR is to achieve its objectives. Although the first year of CGIAR Fund operations is not yet complete, there are some worrying signs that indicate funding predictability continues to be a major challenge; for example:

- a. The total 2011 expected inflow to the CGIAR Fund is still not known with certainty with only two months to go before the end of the year;
- b. Only three donors have signed Contribution Agreements/Arrangements which extend beyond 2011, and these are for small amounts;
- c. Timely disbursements to CRPs have been constrained by liquidity issues;
- d. The projected inflows for 2012 and 2013 are based on informal communications with donors which cannot be guaranteed, yet the Fund Council has approved a portfolio of CRPs which exceeds the projected funding supply—albeit in good faith that donors will make the necessary contributions as and when required.

7. The CGIAR Fund has an important responsibility to its stakeholders to carefully account for funds, to manage its finances wisely, and to plan for the adequate funding of research. In carrying out these duties, the CGIAR Fund must ensure that it can provide adequate and timely funding, which will ultimately support the Consortium in its budget planning process for CRPs. This goal becomes even more relevant in times of fiscal constraint when predictable and stable financing may be more difficult to attain.

8. While the CGIAR reform has brought about welcome changes to the funding approval process resulting in a portfolio of new programs, the same cannot be said for cash inflows from donors which continue to be based on “old CGIAR” practices. These are characterized, inter alia, by (i) annual cycle of contributions rather than multi-year contributions; (ii) the unpredictable and sporadic timing of their payments, (iii) independent and disconnected decision-making on bilateral funding; (iv) continuation of the CGIAR MDTF fund approach through Window 3 of the CGIAR Fund; and (v) direct donor negotiations with Centers.

III. Summary of the Fund Council Discussion on the Financial Challenges

9. In July 2011, the Fund Council discussed the long term and short-term financing challenges of the CGIAR Fund. The Trustee and the Fund Office presented an analysis¹ of three cash flow scenarios, based on projected donor contributions and CRP approvals for the period 2011 to 2013. The first two scenarios illustrated the importance of receiving donor inflows in advance of the disbursement needs of Centers. The third scenario illustrated the additional donor funding required and the timing of these donor payments in order to meet projected disbursement requirements from Windows 1 and 2 for all sixteen programs (including Genebanks) over the next three years.

10. To address critical and immediate disbursement shortfalls, expected to begin in 2012, the Fund Council agreed to a short-term action plan. This plan included (i) the immediate mobilization of additional donor contributions into the CGIAR Fund by March 2012; (ii) a note on funding mechanisms co-authored by the Fund Office and Trustee (which this paper fulfills); (iii) the organization of a donors’ meeting to agree on improved predictability and volume of inflows; (iv) set a realistic total financing envelope up to 2013; and (v) request the Consortium to prepare a finance plan aligned with the approved envelope. On Consortium-led actions, the Fund Council reached consensus on the following (i) the preparation of a financial plan aligned with a realistic approved financing envelope, taking into account priorities of the Consortium; (ii) rescheduling the disbursement amount of CRPs to align with the projected inflows; and (iii) economizing and prioritizing on CRP budgets.

11. The long-term action plan focused on addressing the longer term financial sustainability of the CGIAR Fund with the following actions to be considered by Fund Council: (i) increasing the

¹ Trustee’s PowerPoint presentation is available at the FC5 meeting web site at: http://www.cgiarfund.org/cgiarfund/5th_fund_council_meeting

predictability, adequacy and reliability of the flow of funds; (ii) building up a prudent level of liquidity; and (iii) monitoring the accuracy of projected donor transfers.

IV. Resource Mobilization Approaches

12. All large multilateral funds must address the question of which resource mobilization mechanism meets their needs. For funds supported primarily through ODA grants, the fundraising process is handled in a range of ways. Most large multilateral funds begin in a somewhat ad hoc way with commitment of contributions from the initial donors, followed by outreach to additional donors. Over time, many move to a more regular and systematic process to replenish their resources, which could involve single- or multi-year commitments made at periodic “replenishment rounds”. Large multilateral funds also must tackle a key consideration of the funding approach—“burden-shared” (under which donor shares are roughly based on an independent measure such as share of world GDP) vs. voluntary approaches (under which donor amounts are based on individual interest/capacity). There is no perfect or ‘best practice’ method; each fund must choose for itself a method that suits its operations and the budgetary procedures of its particular donors. The following paragraphs present a brief summary of the history of the resource mobilization mechanisms of several large multilateral funds. See the attached Annex for a summary of the resource mobilization mechanisms of several multilateral funds in which CGIAR donors participate.

13. **The Global Environment Facility:** After a brief pilot period with a voluntary funding mechanism, the Global Environment Facility (the GEF) established a resource mobilization mechanism based on the replenishment mechanism of the International Development Agency (IDA). GEF’s donors were largely the same as IDA’s. They were thus familiar with the IDA process and believed it functioned effectively. GEF replenishment cycles span four-year periods, and include, like IDA, a burden-shared approach. The GEF is currently in its fifth pledging cycle.

14. **The Global Fund to Fight AIDS, Tuberculosis and Malaria:** In the case of the Global Fund, donors decided on an annual, ad hoc fundraising mechanism for its first few years. This made it difficult to plan a work program beyond one year since many Global Fund donors pledged only for a single year. To help provide assurance of sustainable and predictable funding beyond one year, the Global Fund eventually moved to a periodic multi-year pledging mechanism based on a number of other large multilateral funds. It began with a two-year funding cycle, but eventually moved to three-years. Unlike the GEF, the contributions of the Global Fund are not burden-shared.

15. **The GAVI Alliance:** operated for ten years before moving to its first big pledge campaign in 2011. The change to a four-year donor commitment period was in response to developing countries’ preference to match the cycle of donor commitments more closely with those of their national plans. The current funding cycle for the GAVI Alliance covers a four-year commitment cycle by donors. Like the Global Fund, the GAVI resource mobilization mechanism provides for voluntary contributions.

16. **The Global Partnership for Education** (formerly known as the Education for All—Fast Track Initiative): also operated for many years without predictable long-term financing commitments from donors. Similar to the very early days of the CGIAR, the Global Partnership for Education (the GPE) had multiple multi-donor trust fund accounts with pledges from donors, some of which were single year, some multi-year. A decision was made in May 2011 by the then EFA-FTI Board of Directors (now the Global Partnership for Education Board of Directors) to launch a formal replenishment campaign to mobilize resources both for the Global Partnership for Education Fund and for basic education generally, for the period 2011 to 2014. The first ever pledging conference will be held in November 2011. The GPE plans to report on the outcome of the conference, outlining the contributions of all partners, including bilateral aid and domestic financing that also support the policy objectives of the Partnership.

17. It should be noted that, in all cases cited above, the adoption of a formal resource mobilization mechanism does not preclude the acceptance of contributions, voluntary or otherwise, outside of the funding cycle.

V. Benefits of a Formal Resource Mobilization Mechanism for the CGIAR Fund

18. Underpinning each of the resource mobilization mechanisms discussed above are two critical elements. These include (i) an outreach plan to engage donors and other stakeholders, such as recipients, civil society, and international organizations; and (ii) logistical planning—typically handled by the secretariat of the fund (number and location of meetings, etc). As a general rule, the outreach strategy includes consultations, both formal and informal, to ensure engagement at all levels and explore novel ideas on financial arrangements that require additional deliberations before disclosure. Both elements are tailored to the funding mechanism adopted and provide a foundation to build global visibility, international and local support, and a public relations campaign.

19. A collective mechanism to mobilize resources provides has several benefits. First, it can help to reinforce accountability and obliges donors to strategically prioritize resources. Second, it provides a forum for vital exchange on donor expectations as well as crucial dialogue with stakeholders. And last, it enables governing bodies to better plan their financial commitments to recipients.

20. One of the key outcomes of a successful funding mechanism is a multi-year programming ‘envelope’ (the financing needs of a fund) backed by a realistic, and transparent resource envelope (the financial contributions from donors). Other outcomes, no less important, are agreement on goals and expected achievements for the funding period and a common set of financial arrangements, such as coordinated donor payment schedules and the use of promissory notes or letters of credit². Using these financial instruments allows a fund to make commitments to recipients upfront and in advance of cash receipt from donors. Further, these instruments have the added benefit of easing the pressure on donors’ annual cash outlays because cash payment is requested from the donor only as needed to cover medium-term disbursement needs.³

VI. CGIAR Fund—Moving to an Established Resource Mobilization Mechanism

21. Moving to a formal and transparent resource mobilization mechanism is the natural next step in the reform process of the CGIAR system. Taking advantage of lessons learned from other global funds, the Fund Council could consider developing and implementing a process inspired by the approaches and benefits as outlined in Sections IV and V.

22. The ‘best fit’ mechanism for any fund is one that takes into account its unique characteristics. For the CGIAR Fund, this would mean a funding mechanism that is flexible and adaptable. These two traits are very important to the CGIAR Fund. It has growing demands, and it has a diverse set of donors with distinct budgetary cycles and processes. This translates into a requirement for an appropriate mechanism—one that enables donor contributions to be received outside of a formal contribution announcement session.

² The use of promissory notes and letters of credit, with corresponding multi-year encashment schedules, are typically used by funds which finance programs and projects that disburse over a multi-year period.

³ In the beginning of the GEF, donors agreed to accelerate their cash payments well in advance of expected disbursement needs of the recipients. This approach created a liquidity reserve that helped to remove the doubt, in those early days, of whether funds would be available to disburse when needed. This in turn helped to ensure an uninterrupted, but growing, work program.

23. It was agreed at the July 2011 Fund Council meeting that the CGIAR Fund needed to establish a predictable long-term funding mechanism that included multi-year commitments from donors. This mechanism would need to be approved by the Fund Council. It was further suggested that the CGIAR Fund should aim to convene a high-level ministerial meeting at the end of 2012 as a first-ever contribution meeting to the CGIAR Fund.

24. To reach these goals, this paper suggests the Fund Council consider and agree to the following actions:

- Prepare a draft resource mobilization mechanism ‘roadmap’, based on the November 2011 discussion of this paper in Rome, Italy. The roadmap would take into account follow-up consultations with stakeholders. It would include proposals for (i) a schedule of meetings and topics for donor consideration and agreement; and (ii) rules of participation for any subsequent donor meeting (i.e., observer participation and minimum contributions). The Fund Office shall draft this roadmap.
- Convene a donor meeting in Seattle, Washington, in advance of the March 2012 Fund Council meeting. All current and potential donors to the CGIAR Fund would be invited. At the close of this meeting, participants would endorse a ‘roadmap’ that sets out a plan to (i) establish a [resource mobilization mechanism appropriate to the CGIAR Fund; and (ii) convene a high-level ministerial contribution session. The Fund Office will convene and support this donor meeting.
- Form a Donor Contribution Working Group to draft decision documents covering topics such as the number of years in the commitment funding cycle, off-cycle contributions, and donor financial arrangements. The final output of this Committee is a ‘contribution declaration’ that sets out the proposed resource mobilization mechanism. This Working Group would be supported by the Fund Office.
- Convene a high-level ministerial meeting at the end of 2012. Donors would be expected at this meeting to endorse the ‘contribution declaration’ followed by contributions to the CGIAR Fund covering the agreed funding cycle. This meeting will then be repeated per the cycle agreed by the donors.

VII. Conclusion

25. An agreed resource mobilization mechanism will provide several benefits. First, it helps to reinforce collective donor accountability and facilitates donors’ strategic prioritization of resources. Second, it provides a forum for crucial dialogue for stakeholders. Lastly, it facilitates better planning of work programs and resultant financial commitments to recipients. A predictable flow of aid is particularly important to the CGIAR Fund at a time when it is trying to scale up investment in scientific research that is characterized by large, annual fixed costs, such as hiring researchers and technical staff. Scientific research is not easy to switch on and off and doing so results in huge inefficiencies of resource use

26. With a formal resource mobilization mechanism, estimates of financial inflows for the CGIAR Fund would be more predictable.⁴ This improvement over the current annual process would enable the Fund Council and the Consortium to optimize financial planning and help ensure matching of the planned

⁴ Currently, projections of inflows from CGIAR Fund donors are based on information passed through unofficial statements made by Fund Donors to the Fund Office making it difficult to develop reliable projections.

inflows (projected resource envelope) with the planned outflows (projected programming envelope). This in turn would create more confidence in the CGIAR reform and strengthen the buy-in from stakeholders, as well as support the long-term planning of CRPs and System Costs.

27. However, it is important to point out that even with a formalized mechanism for resource mobilization, uncertainties in predicting donor financing will continue—on some level. Contributions across multiple years may not be paid in the year for which they were scheduled due to political or budgetary complications. Hence, an adequate rolling level of CGIAR Fund liquidity must be maintained to avoid disruption of research programs.

Annex

Resource Mobilization Mechanisms of Several Multilateral Funds In which CGIAR Donors Participate

Fund Name	Programming Approach	Donor Financing Mechanisms	Participating CGIAR Fund and MDTF Donors	
Climate Investment Funds (established in 2008)	Investment Plans and pipeline management are based on the total pledged amount	<ul style="list-style-type: none"> No formal resource mobilization mechanism Initial pledging meeting attended by high level ministerial representatives Subsequent pledges are announced by donors at CIF Committee meetings Contributions accepted at any time Donors make multi-year commitments Voluntary approach Contribution payment schedules are based on donor preferences Promissory notes and letters of credit are acceptable forms of payment 	Australia Canada Denmark France Germany Japan Netherlands Norway Spain Sweden Switzerland United Kingdom United States	
GAFSP (established in 2010)	Agricultural Food Security Plans and calls for proposals are based on the total pledged amount	<ul style="list-style-type: none"> No formal resource mobilization mechanism No formal pledging meeting was convened Initial and subsequent pledges announced by donors at GAFSP Committee meetings Contributions accepted at any time Donors make multi-year commitments Voluntary approach Contribution payment schedules are based on donor preferences Promissory notes and letters of credit are acceptable forms of payment 	Australia Bill and Melinda Gates Foundation Canada Ireland Spain United States	
GEF (established in 1991)	Four-year programming envelope/target based on replenishment resolutions	<ul style="list-style-type: none"> Formal resource mobilization mechanism based on a four-year replenishment cycle Pledges announced at a final pledging session at close of each replenishment meeting Contributions accepted outside of the replenishment 'cycle' Donors make multi-year commitments Burden-sharing framework. Contributions payment schedules are coordinated. Promissory notes and letters of credit are acceptable forms of payment 	Australia Austria Belgium Canada China Denmark Finland France Germany Ireland Italy Japan Luxembourg	Mexico Netherlands New Zealand Nigeria Norway Portugal Russian Federation South Africa Spain Sweden Switzerland Turkey United Kingdom United States

Fund Name	Programming Approach	Donor Financing Mechanisms	Participating CGIAR Fund and MDTF Donors	
Global Fund for AIDS, Tuberculosis and Malaria (established in 2002)	Multi-year programming planning, with periodic review of funding availability	<ul style="list-style-type: none"> • Formal resource mobilization mechanism covering 3-year cycle • Pledges announced at final pledging session • Contributions accepted at any time outside of the replenishment cycle • Donors may make multi-year commitments • Voluntary approach • Contribution payment schedules are based on donor preferences • Promissory notes and letters of credit are acceptable forms of payment 	Australia Austria Belgium Bill and Melinda Gates Foundation Canada China Denmark European Commission Finland France Germany Ireland Italy	Japan Luxembourg Mexico Netherlands New Zealand Nigeria Norway Portugal Russian Federation South Africa Spain Sweden Switzerland Thailand United Kingdom United States
LDCF/SCCF (established in 2002 and 2004 respectively)	Annual Programming	<ul style="list-style-type: none"> • No formal resource mobilization mechanism • Pledges announced at pledging sessions held during GEF Council meetings • Contributions accepted at any time • Some donors make multi-year commitments • Voluntary approach • Contribution payment schedules are based on donor preferences • Promissory notes and letters of credit are acceptable forms of payment 	Australia Austria Belgium Canada Denmark Finland France Germany Ireland Italy	Japan Luxembourg Netherlands New Zealand Norway Portugal Spain Sweden Switzerland United Kingdom United States